

City of Detroit


CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: March 26, 2009

RE: Cobo Hall Deal Update

A majority of Council members have expressed their suggestions as it relates to the Cobo Hall deal transaction. In this report I provide comments on these proposed amendments.

Appraisal

In my initial report on the Cobo Hall deal, I indicated that Cobo Hall has a negative value ranging from \$179 million to \$206 million using an income analysis approach. The financial information used to determine this calculation was received from the Detroit Economic Growth Corporation. A formal appraisal of Cobo Hall was not done.

The proposal of Council members that an independent and formal appraisal be prepared to determine the value of Cobo Hall would be informative. If the independent and formal appraisal indicates that the value of Cobo Hall is greater than \$20 million, the amount the State agreed to give the City of Detroit for the transfer of Cobo Hall to the Authority, then I could analyze the new data to report any different outcomes regarding an amount the City of Detroit should receive for the facility.

In addition, any revised remuneration should include a sufficient amount to reimburse the City of Detroit's municipal parking system for the lost revenue from the Cobo garage and Cobo roof parking facilities and Cobo Arena concessions now received by the parking system under the Olympia Entertainment sublease with the City, should these facilities be transferred to the Authority. The reimbursement to the City's parking system should also contain a sufficient amount to reduce outstanding bonds associated with the parking system such that remaining parking revenues will meet debt service requirements under debt service coverage ratio requirements that are stipulated in the bond covenants.

Expansion

The current Cobo Hall deal would expand the square footage of the exhibition space from 700,000 SF to 866,000 SF. This expansion would put Cobo Hall into the top 15-tier group.

However, many Council members have indicated that Cobo Hall should rather be expanded by 300,000 SF to become a one million square foot facility. This expansion level would place Cobo Hall in the top 10-tier group, and possibly the top five. A one million square foot facility should also better compete for larger conventions and world class shows.

A renovation and expansion of Cobo Hall to a one million square foot facility would cost approximately \$900 million, based on estimates under the previous Administration. The hotel and liquor taxes would have to be extended beyond year 2039 that is the current State legislation to help finance this cost, absent an alternative source to pay for this expansion.

Perhaps economic stimulus money could pay for, or help pay for the Cobo Hall expansion. It appears, however, that a special earmarking, or federal legislation language, would be required to funnel economic stimulus money for the Cobo Hall expansion.

Geographical Preference

Several Council members have expressed that a minimum percentage, such as a 30-percentage rate, regarding geographical preference for Detroit residents and businesses be a requirement in a revised Cobo Hall deal. This would ensure that more tax revenues would inure to the benefit of the City of Detroit; especially as it relates to the economic benefits derived from the North American International Auto Show, which generates approximately \$600 million and creates over 16,000 jobs annually for the region.

Governance and Ownership

Any comments on the governance and ownership issues as they relate to the Cobo Hall transaction should be deferred to the Research and Analysis Division, as I feel they require a legal interpretation.

Conclusion

Based on my initial analysis of the Cobo deal, the proposed deal had long-range financial benefits to the City of Detroit.

However, the Cobo deal would be an improved deal if any of the following occurred based on the suggestions expressed by a majority of Council members:

- The City of Detroit would receive a higher price for Cobo Hall based on an independent and formal appraisal, which also sufficiently reimburses the City's municipal parking system for lost revenues associated with the transfer of Cobo Hall's parking facilities and lost of Cobo Arena concessions.
- Cobo Hall could be expanded to a one million square foot facility that is financed with hotel and liquor taxes and, or with an alternative source.
- The Authority would be required to give at least a 30% geographical preference for Detroit residents and businesses to ensure the City of Detroit receives more tax dollars.
- The City of Detroit would continue to not be responsible for future costs/liabilities associated with the transferred Cobo Hall facility.

Please let me know if we in Fiscal Analysis could be of any more help.

cc: Council Divisions
 Mayor Kenneth V. Cockrel, Jr.
 George Jackson, DEGC President
 Brian Holdwick, DEGC Vice-President
 Matthew Schenk, Executive Assistant to the Wayne County Executive
 Robert Ficano
 Joseph Harris, Chief Financial Officer
 Pamela Scales, Budget Director
 Thomas Tuskey, Civic Center Director
 Arese Robinson, Mayor's Office